

Message Text

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ACTION EA-12

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E.O. 11652: N/A
TAGS: EFIN, TW
SUBJECT: REVALUATION AND THE NEW EXCHANGE RATE SYSTEM

1. IN A PRESS CONFERENCE ON JULY 18, GOVERNOR YU KUO-HUA OF THE CENTRAL BANK OF CHINA CONFIRMED THAT THE GROC INTENDED TO MOVE TOWARDS A "FREELY FLOATING" CURRENCY RATE. HE STATED THAT DURING THE INTERIM, UNDER THE PRESENT ADJUSTABLE PEG SYSTEM, ANY ADJUSTMENTS MADE WOULD BE SMALL, AND WOULD BE MADE WITHOUT REGARD TO ANY TIMETABLE, DEPENDING ONLY ON DOMESTIC ECONOMIC CONDITIONS AND ON AN INDEX OF THE CURRENCIES OF THE ROC'S CLOSEST TRADING PARTNERS. GOVERNOR YU WOULD NOT DEFINE WHAT HE MEANT BY "SMALL," BUT INDICATED THAT THE JULY 11 REVALUATION WAS "FAIRLY LARGE." TO CONFUSE MATTERS, HE THEN STATED THAT THE ADJUSTABLE PEG SYSTEM REALLY MEANT A FLOATING RATE SYSTEM. AFTER FOREIGN EXCHANGE REGULATIONS ARE MODIFIED, AND A FOREIGN EXCHANGE MARKET ESTABLISHED, HE NOTED, THE EXCHANGE RATE WILL BE DECIDED BY FOREIGN EXCHANGE SUPPLY AND DEMAND.

2. GOVERNOR YU ALSO STATED THAT DOMESTIC ENTERPRISES SHOULD IMPROVE THEIR PRODUCTION METHODS, AND MOVE AS RAPIDLY AS POSSIBLE TO UPGRADE QUALITY AND REDUCE COSTS,
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IN ORDER TO COPE WITH THE REVALUATION. THE CENTRAL BANK, HE NOTED, COULD NOT ACCEPT THE RECOMMENDATION OF SOME COMPANIES THAT THE OLD EXCHANGE RATE (NT\$38 US\$1) BE APPLIED IN CASES WHERE GOODS HAD BEEN EXPORTED OR L/C'S RECEIVED PRIOR TO JULY 11, BUT NT CURRENCY HAD NOT YET BEEN RECEIVED FROM THE CENTRAL BANK.

3. BOTH DEPUTY GOVERNORS OF THE CENTRAL BANK INDICATED TO EMBOFF THAT IT WOULD PROBABLY BE SEVERAL MONTHS BEFORE THE ROC MOVED TO A FLOATING RATE SYSTEM. DEPUTY GOVERNOR LIANG KUO-SHU STATED THAT THOSE OFFICIALS IN THE MINISTRY OF ECONOMIC AFFAIRS WHO HAVE ENCOURAGED EXPORT COMPANIES TO APPLY FOR GOVERNMENT ASSISTANCE DID NOT SEEM TO UNDERSTAND THAT AN IMPORTANT PURPOSE OF THE REVALUATION WAS TO COOL OFF EXPORTS. UNGER

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Message Attributes

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